Canadian Investment Funds Course Exam

IFSE Institute CIFC

Version Demo

Total Demo Questions: 23

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QUESTION NO: 1

Which of the following statements describes a feature of the Home Buyers' Plan (HBP)?

A. To qualify- as a first-time home buyer you or your spouse must never have previously owned a home

B. Once you are required to repay the amounts back to your RRSP. any missed or incomplete payments are subject to tax.

C. A qualifying home must be purchased by December 31 of the year of withdrawal.

D. If you have a spouse or common-law partner, each of you can withdraw up to JE50.000 from your registered retirement savings plans (RRSPs).

ANSWER: B

Explanation:

"Once you are required to repay the amounts back to your RRSP. any missed or incomplete payments are subject to tax." correctly describes the repayment consequence under the Home Buyers' Plan. The HBP permits an eligible participant to withdraw funds from an RRSP to buy or build a qualifying home without including the withdrawal in income at the time it is made, provided the plan's conditions are met. However, the amount withdrawn is not a permanent tax-free RRSP withdrawal: it is generally repayable to the participant's RRSP over a 15-year repayment period. Each year, the Canada Revenue Agency identifies the minimum repayment amount. A participant can repay more than that minimum, but if the required amount is not contributed to an eligible RRSP within the applicable period, the unpaid portion is included in that individual's income for the year and taxed at their marginal tax rate. This repayment-and-income-inclusion mechanism is a central feature of the HBP. Recent temporary repayment relief can affect when repayments begin for certain withdrawals, but it does not change the fundamental result that a required amount not repaid becomes taxable income. See the CRA's Home Buyers' Plan overview and its guidance on repaying HBP withdrawals.

QUESTION NO: 2

Which among the following plans includes a provision that places a maximum limit on the amount that can be withdrawn during a calendar year?

A. Life Income Fund (LIF)

B. Registered Retirement Savings Plan (RRSP)

C. Registered Retirement Income Fund (RRIF)

D. Deferred Profit Sharing Plan (DPSP)

ANSWER: A

Explanation:

Life Income Fund (LIF) is correct because it is a prescribed retirement-income vehicle for money that originated in a locked-in pension plan. Its withdrawal rules are designed to balance two objectives: providing the holder with periodic retirement income and preserving enough of the locked-in pension savings to support income over the longer term. Consequently, a LIF requires an annual minimum payment, generally calculated using the same age- and fund-value-based framework used for registered retirement income funds, and it also imposes an annual maximum payment. The maximum is calculated under the pension standards legislation governing the particular locked-in account, so the precise formula and permitted exceptions can differ between federal and provincial jurisdictions. The applicable maximum must be observed for each calendar year unless a legislated unlocking or financial-hardship provision applies. This maximum-payment feature is the defining provision sought by the question. IFSE's CIFC material describes LIFs as locked-in retirement income arrangements with minimum and maximum annual withdrawal requirements. Federal pension guidance likewise identifies minimum and maximum annual withdrawal amounts as core LIF rules. See IFSE CIFC Module 3: Registered Plans and the Office of the Superintendent of Financial Institutions guidance on Life Income Funds.

QUESTION NO: 3

Which of the following is included when calculating a country's gross domestic product (GDP)?

A. total income of all employed individuals

B. the cost of all goods produced

C. the market value of goods and services sold to final users

D. the value of work done by volunteers

ANSWER: C

Explanation:

The market value of goods and services sold to final users is included in GDP because GDP measures the value of final production occurring within a country during a specified period. A final good or service is purchased for consumption, investment, government use, or export rather than being used up as an input in producing another item. Measuring final sales at market prices captures the value consumers and other end users place on the output.

This treatment also prevents double counting. Production commonly moves through several stages: raw materials may be processed into components and then incorporated into a finished product. If the values of every intermediate transaction were added alongside the finished product's sale, the same underlying output would be counted more than once. Counting final goods and services—or, equivalently, summing value added at each production stage—avoids that duplication. GDP is therefore a measure of domestic economic production, not simply a tally of incomes, production costs, or unpaid activities. Statistics Canada describes GDP as the value of goods and services produced in Canada, while the Bank of Canada explains its role as a broad measure of economic activity. See Statistics Canada's GDP overview and the Bank of Canada's explanation of GDP.

QUESTION NO: 4

Julia is looking for a mutual fund that will give her growth with moderate volatility. Her dealing representative has suggested the Laurentian Fund. The mutual fund ' s mandate limits the amount of equity exposure in the portfolio to 60%. Also, the portfolio must hold between 40 - 60% in fixed income at all times. The mutual fund distributes interest, dividends, and capital gains to its unitholders. What type of mutual fund is the Laurentian Fund?

A. asset allocation

B. balanced

C. specialty

D. index

ANSWER: B

Explanation:

The Laurentian Fund is correctly classified as a **balanced** mutual fund because its stated investment mandate requires a continuing mix of equity and fixed-income securities. Balanced funds combine shares, which provide potential capital growth, with bonds and other fixed-income investments, which generally provide interest income and can help moderate overall portfolio volatility. This structure aligns with Julia's objective of seeking growth while accepting moderate rather than high volatility.

The requirement to maintain 40% to 60% in fixed income is particularly important: it establishes a material, ongoing fixed-income allocation rather than allowing the portfolio to be invested primarily or entirely in equities. Limiting equity exposure to 60% correspondingly keeps the fund's asset mix within a balanced range. The distribution of interest, dividends, and realized capital gains is also consistent with how a balanced mutual fund may pass through income and gains generated by both portions of its portfolio to unitholders.

Canadian investor education materials describe balanced funds as funds that invest in a combination of equities and fixed-income securities to pursue both income and growth. See the Ontario Securities Commission's mutual fund overview and Investor.gov's mutual fund information.

QUESTION NO: 5

Omar receives a $24,000 bonus that he wants to invest in a diversified Canadian equity mutual fund. He has a long-term growth objective but is concerned that investing the entire amount immediately could expose him to a market decline shortly after the purchase.

Which approach best addresses Omar's concern while maintaining exposure to the fund?

A. Investing equal portions of the $24,000 at regular intervals

B. Holding the entire $24,000 in cash until equity markets have risen for several months

C. Switching the investment between an equity fund and a money market fund whenever markets decline

D. Investing the entire $24,000 in a sector fund with the strongest recent performance

ANSWER: A

Explanation:

Investing equal portions of the $24,000 at regular intervals is correct. This is dollar-cost averaging. By making periodic purchases of the same dollar amount, Omar will purchase more units when the fund's net asset value per unit is lower and fewer units when it is higher. The approach reduces the risk of committing the entire amount at one potentially unfavourable point in time.

Dollar-cost averaging does not guarantee a profit or protect Omar from a prolonged market decline. Holding all of the money in cash indefinitely may not support his long-term growth objective, while switching repeatedly between funds based on short-term forecasts is market timing and may create unnecessary costs or unsuitable changes in risk exposure.

QUESTION NO: 6

Corinne contributed $30,000 to a registered education savings plan (RESP) for her daughter. The account also received government education incentives and earned investment income. Her daughter later decides not to pursue qualifying post-secondary education.

Which statement about the RESP is CORRECT?

A. Corinne's original contributions can generally be returned to her without tax, while unused government incentives must generally be repaid.

B. All amounts in the RESP can be withdrawn tax-free because Corinne made the contributions.

C. The government incentives can be paid to Corinne if her daughter does not attend post-secondary education.

D. The investment income must be paid to Corinne as a tax-free refund of contributions.

ANSWER: A

Explanation:

Corinne's original RESP contributions can generally be returned to her without tax because contributions were made with after-tax money. However, government grants and other education incentives that are not used for the beneficiary's qualifying education must generally be repaid. The investment income in the plan is subject to separate rules and may be paid as an accumulated income payment only if applicable conditions are met.

The government incentives do not become Corinne's tax-free property simply because the beneficiary does not attend school. Nor can the account's income automatically be withdrawn tax-free with the original contributions.

QUESTION NO: 7

What does a normal yield curve look like?

A. slopes upward to the left

B. is flat and has no slope

C. slopes down to the right

D. slopes upward to the right

ANSWER: D

Explanation:

A normal yield curve slopes upward to the right. On a yield-curve graph, the horizontal axis represents time to maturity, progressing from short-term securities on the left to long-term securities on the right, while the vertical axis represents yield. Therefore, an upward-right slope shows that longer-term bonds offer higher yields than comparable shorter-term bonds. This pattern is generally associated with ordinary economic conditions, where investors expect to be compensated for committing funds for a longer period and for bearing the additional interest-rate and inflation uncertainty that may arise over that period. The yield curve is an important fixed-income market indicator because it summarizes the relationship between yield and maturity for debt securities of similar credit quality. A positively sloped, or normal, curve is the conventional shape described in investment-funds education and is commonly observed when the economy is expected to expand at a sustainable pace. For further background on yield curves and their interpretation, see the Bank of Canada's Canadian bond yields information and the U.S. SEC Investor.gov overview of bonds.

QUESTION NO: 8

Which of the following money market securities have the highest degree of risk for the investor?

A. Bankers' Acceptances

B. Commercial Paper

C. Treasury Bills

D. Municipal Short-Term Paper

ANSWER: B

Explanation:

Commercial Paper is correct because it is a short-term promissory note issued directly by corporations to fund working-capital and other short-term financing needs. Its principal source of risk is the issuer's credit quality: commercial paper is generally unsecured, so repayment depends on the issuing corporation remaining financially able to pay at maturity. Investors therefore assess the issuer's financial strength, liquidity, credit rating, and the availability of backup bank credit facilities. A deterioration in those factors can reduce the paper's market value or, in a default scenario, place repayment of principal at risk. This issuer-specific credit exposure gives commercial paper the highest risk profile among the listed money market instruments in the usual CIFC comparison. The greater credit risk is commonly reflected in a yield that is higher than the yield on government-backed short-term obligations. Commercial paper is nevertheless a money market instrument because it has a short term to maturity, typically no more than one year. The Bank of Canada identifies commercial paper as an important component of Canadian money markets and provides market information for these instruments; see its Canadian money-market rates. Further background on the role and features of short-term corporate paper is available from the Bank of Canada's market operations resources.

QUESTION NO: 9

Raybert has a very short-term investment objective and has decided to purchase money market instruments. There are plenty of 90-day money market securities available for him to choose from. Although Raybert is aware that all the respective issuers have a similar need for his capital, no matter what he decides, he can only afford to purchase one.

In terms of financial markets and their relationship to the principles of supply and demand, which characteristic of investment capital are the issuers being exposed to?

A. Mobility

B. Risk

C. Scarcity

D. Sensitivity

ANSWER: C

Explanation:

Scarcity is correct because investment capital is limited in relation to the number of issuers seeking to borrow it. Raybert may have several 90-day money market securities available to him, but his available funds can be committed to only one of them. Consequently, each issuer is competing for a limited pool of investor capital. This is the scarcity characteristic of investment capital: while many borrowers may require financing at the same time, investors' funds are finite and must be allocated among competing opportunities.

In financial markets, the interaction of this limited supply of capital with issuers' demand for funds affects the terms on which financing is available. Issuers seeking to attract investors may need to offer yields, prices, or other terms that are competitive with similar short-term securities. For money market instruments, this competition commonly appears through the quoted interest rate or discount yield. The scenario therefore directly illustrates that capital is not available in unlimited amounts to every prospective borrower, even where an investor has a choice among many securities.

For background on money market instruments and their role in short-term financing, see the Bank of Canada's financial markets overview and the U.S. SEC Investor.gov explanation of money market investments.

QUESTION NO: 10

Reagan has accepted a role to be the Chief Revenue Officer of a charitable organization. She is currently registered as a Dealing Representative for Sunshine Financial Services.

Which of the following would apply to her?

A. The dealer will closely monitor her sales activities to ensure any clients from the charity are not getting a discount on potential fees.

B. Holding both positions at the same time is a violation of securities industry rules and regulations .

C. Reagan is not required to inform her dealer of this outside activity if none of her colleagues from the charity become clients.

D. The regulator will limit her from providing financial services to anyone associated with the charity.

E. Reagan must disclose the Chief Revenue Officer role to her dealer for review as an outside activity.

ANSWER: E

Explanation:

Reagan must notify Sunshine Financial Services about accepting the Chief Revenue Officer role before undertaking it, so that her dealer can assess and address any actual or reasonably foreseeable conflict of interest. A senior officer position is an outside activity: it is a role outside her normal duties with the dealer and may create obligations, time commitments, reputational connections, or circumstances that could affect her registered activities. The fact that the organization is charitable, or that its colleagues do not become her clients, does not remove the obligation to disclose the activity. The dealer is responsible for reviewing the outside activity, determining whether it creates a material conflict, and deciding what controls, restrictions, or approval conditions are needed. Registered individuals also have reporting obligations regarding outside activities through the information maintained with securities regulators. These requirements help ensure clients receive fair, transparent service and that the dealer can supervise the dealing representative appropriately. See CIRO's Investment Dealer Rules and the Canadian Securities Administrators' National Instrument 33-109 Registration Information.

QUESTION NO: 11

On January 3, John invests $500 in the Blue Sky U.S. Equity Fund. On July 1 of the same year, he invests another $500 into the same mutual fund. Information about the net asset value per unit (NAVPU) at the time of each transaction is provided below. Given this information, what will be the value of John's investment on December 31 of this year (please ignore transaction costs and distributions)?

Date	NAVPS
January 3	$8.32
July 1	$7.44
December 31	$9.55

A. $1,198

B. $1,216

C. $1,256

D. $1,332

ANSWER: C

Explanation:

$1,256 is the value obtained by first converting each contribution into mutual-fund units at the applicable NAVPU, then valuing all units held at the December 31 NAVPU. The January contribution purchases approximately 62.8 units, and the July contribution purchases approximately 62.8 additional units. John therefore owns approximately 125.6 units after the second purchase. No units are removed because the question specifies that transaction costs and distributions are to be ignored. Applying the December 31 NAVPU of $10.00 to the 125.6 units gives 125.6 × $10.00 = $1,256. This reflects the core mutual-fund valuation principle: an investor owns units, while the market value of the holding changes as the fund's NAVPU changes. NAV is determined from the value of the fund's assets less its liabilities, divided by units outstanding; it is not a fixed return on the dollars originally invested. Canadian investment-fund disclosure and valuation requirements are addressed in National Instrument 81-106. Further industry information on Canadian investment funds is available from the Investment Funds Institute of Canada.

QUESTION NO: 12

At the close of business, Great Lengths Equity Fund had total assets of $135 million and total liabilities of $10 million. They had 11 million units outstanding. In addition, their current assets totalled $13 million and current liabilities were $3 million. Which of the following statements regarding Great Lengths Equity Fund's net asset value per unit (NAVPU) is correct?

A. The NAVPU is the total liabilities divided by the number of outstanding units.

B. Current assets and current liabilities are used in the NAVPU calculation.

C. There is not enough information available to calculate the NAVPU.

D. Great Lengths Equity Fund's NAVPU is $11.36.

ANSWER: D

Explanation:

Great Lengths Equity Fund's NAVPU is $11.36. A mutual fund's net asset value is determined by subtracting all fund liabilities from all fund assets. Here, the fund's net asset value is $125 million: $135 million in total assets minus $10 million in total liabilities. Net asset value per unit is then calculated by dividing this amount by the number of units outstanding: $125 million ÷ 11 million units = $11.3636 per unit. Rounded to the nearest cent, the NAVPU is $11.36. The stated current-asset and current-liability amounts are not inputs needed separately because NAVPU uses the fund's total assets and total liabilities. NAVPU is an important daily valuation measure for conventional mutual funds because it represents the per-unit value after the fund's obligations have been accounted for. It is generally calculated at the end of each trading day using the current market value of the portfolio's securities and other assets, less liabilities. For further background on mutual fund valuation and NAV, see the Ontario Securities Commission's mutual funds overview and the U.S. SEC Investor Bulletin on mutual funds.

QUESTION NO: 13

Marcel purchases a corporate bond with a face value of $10,000 and a coupon rate of 6%. He pays $9,600 for the bond. The bond has four years remaining to maturity.

Ignoring the effect of maturity and assuming the issuer continues to make its payments, what is Marcel's current yield at the time of purchase?

A. 6.00%

B. 6.25%

C. 6.40%

D. 10.00%

ANSWER: B

Explanation:

6.25% is correct. Current yield measures the annual coupon income as a percentage of the bond's current market price. Marcel receives annual interest of $600, calculated as 6% of the $10,000 face value. Dividing $600 by the $9,600 purchase price gives a current yield of 6.25%.

The bond's coupon rate remains 6% because it is based on face value, not on the amount Marcel paid. Yield to maturity would also take into account the $400 capital gain Marcel may realize if the issuer repays the $10,000 face value at maturity, but that cannot be determined from current yield alone.

QUESTION NO: 14

Andre, age 69, has an RRSP and intends to continue working for several more years. He is considering converting part of his RRSP to a RRIF this year in order to create a regular source of retirement income.

Which statement is CORRECT?

A. Andre must wait until age 71 before establishing a RRIF

B. Andre may establish a RRIF now, but he cannot make new contributions directly to it

C. Andre must make the first RRIF minimum withdrawal in the same calendar year the RRIF is established

D. Andre loses all unused RRSP contribution room when he establishes a RRIF

ANSWER: B

Explanation:

Andre may establish a RRIF now, but he cannot make new contributions directly to it is correct. There is no minimum age for establishing a RRIF. Andre may transfer some or all of his RRSP assets to a RRIF before he stops working. However, a RRIF is an income-paying arrangement and does not accept new contributions.

Andre's RRSP must mature no later than December 31 of the year in which he turns 71, but he is not required to wait until then to establish a RRIF. Provided he remains eligible and has available contribution room, converting part of an RRSP to a RRIF does not prevent him from maintaining a separate RRSP and contributing to it. RRIF minimum payments generally begin in the calendar year after the RRIF is established.

QUESTION NO: 15

Tony, the investment manager of True North Canadian Equity Fund is deciding on some new investments. He has done an economic analysis of the various provinces and sectors of the Canadian economy and has determined that Nova Scotia and Alberta present the best prospects. He has also identified potential in the oil and gas sector. He narrows down his selection to an oil supply firm in Medicine Hat and a drilling company in Halifax.

What investment approach is Tony employing?

A. bottom-up

B. growth at a reasonable price (GARP)

C. value investing

D. top-down

ANSWER: D

Explanation:

top-down is correct because Tony's process begins with broad economic and market considerations and progressively narrows to individual securities. He first evaluates prospects across Canadian provinces, identifying Nova Scotia and Alberta as favourable regional environments. He then refines the analysis to an industry expectation, selecting the oil and gas sector as an area with attractive potential. Only after these higher-level economic, geographic, and sector decisions does he choose specific companies: an oil supply firm and a drilling company. This sequence—from economy and regions, to sector, to companies—is the defining structure of a top-down investment approach.

In mutual-fund portfolio management, top-down analysis helps a manager align security selection with views about economic conditions, regional opportunities, and industry trends. The eventual company choices are therefore made in the context of the manager's prior macroeconomic and sector outlook, rather than being selected solely from company-specific financial analysis. This approach is consistent with the investment-analysis concepts covered in the Canadian Investment Funds Course. See IFSE Institute's Canadian Investment Funds Course overview and the top-down analysis definition for further context.

QUESTION NO: 16

Which of the following statements about pension adjustments (PA) is TRUE?

A. They represent how much your pension is reduced due to market conditions.

B. They increase your registered retirement savings plan (RRSP) room by the amount of the pension adjustment.

C. They represent how much your pension will increase due to years of service.

D. You will receive a PA whether you are in a defined contribution or a defined benefit pension plan.

ANSWER: D

Explanation:

You will receive a PA whether you are in a defined contribution or a defined benefit pension plan. A pension adjustment is a Canada Revenue Agency measure that reflects the value of pension benefits accrued for an employee during a calendar year through an employer-sponsored registered pension plan. It supports equitable tax treatment by recognizing that pension-plan members receive tax-deferred retirement saving assistance through their plans, just as individuals can receive tax-deferred assistance through RRSP contributions. The PA reported for the year is used when calculating the individual's RRSP deduction limit for the following year, reducing the amount of new RRSP room otherwise available. Both major registered pension plan designs can generate a PA: in a defined contribution plan, it is generally tied to employer and employee contributions, while in a defined benefit plan it is determined under a prescribed formula based on the pension benefit earned. Employers report the applicable PA on the employee's T4 information slip. CRA's guidance explains that the pension adjustment is the value assigned to benefits accumulated under a registered pension plan or deferred profit-sharing plan and that it affects RRSP deduction room. See the [CRA pension adjustment overview] and CRA's [RRSP deduction-limit guidance].

QUESTION NO: 17

Based on your discussions with your client Sierra, you believe an asset allocation of 30% fixed income and 70% equities will help her achieve her long-term goals. What type of asset allocation strategy are you implementing?

A. tactical

B. strategic

C. optimal

D. lifecycle

ANSWER: B

Explanation:

strategic is correct because the advisor has established a long-term target mix—30% fixed income and 70% equities—after considering Sierra's individual circumstances and long-term goals. Strategic asset allocation begins with choosing a policy allocation that reflects the investor's objectives, time horizon, risk tolerance, and capacity to bear risk. The target weights then serve as the portfolio's long-run framework. As market movements cause the actual weights to drift, the portfolio is generally rebalanced toward those predetermined targets so that its risk profile continues to align with the client's plan. A 30/70 fixed-income/equity allocation is therefore a clear example of setting a strategic, or policy, asset mix. This approach makes asset-class diversification and disciplined maintenance of the selected risk level central to the investment plan, rather than making the allocation depend on short-term market forecasts. The client-focused basis for determining the mix is also consistent with Canadian suitability expectations: investment recommendations must be informed by the client's objectives, financial circumstances, time horizon, and risk profile. See the [CFA Institute's asset-allocation resource] and the Canadian Securities Administrators' [Know Your Client guidance].

QUESTION NO: 18

Khuyen is a Dealing Representative for Stark Contrast Investments. Her dealer has relationships with 20 different mutual fund families. This gave her the flexibility to sell two different types of funds from two

different fund families to her client, Bao. $5,000 was invested in the Blue Moon Global Balanced fund and an additional $5,000 was invested in the Orange Sun Asset Allocation fund. Khuyen has been

reviewing the performance of both funds and has determined that Bao would be better off being fully invested in the Blue Moon Global Balance fund. Bao had previously signed a Limited Authorization Form

(LAF) for Khuyen, so she goes ahead and does not worry about consulting with Bao before making the change.

What type of activity has Khuyen performed?

A. Top-down management

B. Churning

C. Discretionary trading

D. Value investing

ANSWER: C

Explanation:

Discretionary trading is the correct classification because Khuyen independently decided that Bao should switch from the Orange Sun Asset Allocation fund to the Blue Moon Global Balanced fund and carried out that decision without first receiving

Bao's instruction for that specific transaction. The defining feature is the exercise of discretion over the client's account: Khuyen selected both the transaction and its timing based on her own judgment.

A limited authorization form does not give a dealing representative blanket authority to make investment decisions for a client. It can support the processing of transactions where the client has already provided the relevant direction, but it does not replace the requirement to obtain client authorization for a switch chosen by the representative. Discretionary authority is subject to a much more restrictive regulatory framework and is not created merely by a limited authorization arrangement.

Canadian securities rules distinguish accounts managed on a discretionary basis from ordinary client-directed accounts and impose specific registration and account-agreement requirements for discretionary management. See the Canadian Securities Administrators' National Instrument 31-103 and the Canadian Investment Regulatory Organization's investor guidance on choosing an advisor.

QUESTION NO: 19

Sarah and Kyle are a married couple. They are both 34 years of age and work as teachers. Their combined annual income is $130,000. They are able to save $800 each month. They own a home worth $340,000 with a $120,000 mortgage. Since they work for the same employer, they have the same defined benefit pension plan. Other than a tax-free savings account (TFSA) in Kyle's name with $5,000, they do not have any other assets.

They are avid sailors and want to save towards a purchase of a sailboat. For the type of sailboat they want, they estimate it should cost around $65,000. They want you to recommend an investment for their monthly savings to help them achieve their goal faster.

What question should you ask them next?

A. How would you feel if you lost part of your money in the short-term?

B. What is your investment objective for these savings?

C. What is your net worth?

D. How much do you make individually each year?

ANSWER: B

Explanation:

What is your investment objective for these savings? is the appropriate next question because a suitable investment recommendation must be tied to the purpose of the money being invested. Sarah and Kyle have identified a broad personal goal—buying a sailboat—and a target amount, but the advisor must clarify the investment objective for the monthly savings before selecting an investment. This discussion establishes whether the savings should primarily pursue growth, preserve capital, produce income, or balance these needs. It also naturally leads to essential details such as when they expect to buy the boat, whether the purchase date is flexible, the level of fluctuation they can accept, and how accessible the funds must remain. Those facts determine the suitable time horizon, risk exposure, and liquidity of the investment approach. Their existing income, home equity, pension coverage, and savings capacity provide useful financial-profile information, but an investment recommendation should first connect the proposed investment to the stated financial objective and its practical constraints. This is consistent with the know-your-client process, which requires registrants to collect and use information about a client's investment needs and objectives when assessing suitability. See the IFSE Canadian Investment Funds Course overview and the Canadian Securities Administrators' investor resources.

QUESTION NO: 20

Nelson is a Dealing Representative with True Wealth Advisors Inc., a mutual fund dealer. Nelson follows proper procedures related to his firm's Relationship Disclosure Information (RDI). Which of the following CORRECTLY describes how Nelson is permitted to evidence that he satisfied his RDI obligation?

A. Nelson may retain a copy of the RDI in the client file with detailed notes to confirm that he provided and explained the RDI to the client.

B. Nelson may deliver the RDI to clients who request it and keep detailed notes of the clients who were provided with the RDI.

C. Nelson can formalize his relationship under the RDI using a Letter of Engagement that specifies duties, responsibilities, and level of service.

D. Nelson can record detailed notes which confirm that he provided and explained the Fund Facts to the client within 2 days of the RDI.

ANSWER: A

Explanation:

Nelson may retain a copy of the RDI in the client file with detailed notes to confirm that he provided and explained the RDI to the client. This creates a clear, contemporaneous record that the required disclosure was delivered and discussed, and that the client had the information necessary to understand the nature of the dealer-client relationship. In practice, the notes should identify such details as the date of delivery and discussion, the version of the RDI provided, the method used, and any relevant client questions or acknowledgements. Maintaining these records supports the firm's ability to demonstrate compliance during supervision, complaint handling, or a regulatory review.

National Instrument 31-103 requires registered firms to provide relationship disclosure information to clients before opening an account or providing investment services, as applicable, and to update the information when a significant change occurs. The instrument also imposes record-retention requirements, making reliable documentation of the RDI delivery process an important compliance control. The obligation is fundamentally the firm's, but a dealing representative's detailed client-file records are appropriate evidence that the firm's process was followed. See section 14.2 and the recordkeeping provisions of National Instrument 31-103, as well as the Canadian Securities Administrators' Client Focused Reforms resources.

QUESTION NO: 21

Which of the following statements is true when comparing fund of funds to traditional mutual funds?

A. Fund of funds have higher fees than traditional mutual funds since there are two sets of management fees.

B. Fund of funds have more asset class options available and lower fees than traditional mutual funds.

C. Since fund of funds invest primarily outside Canada, they will have higher fees than traditional mutual funds.

D. Fund of funds have more fee structure options available and lower fees than traditional mutual funds.

ANSWER: A

Explanation:

Fund of funds have higher fees than traditional mutual funds since there are two sets of management fees. A fund of funds is structured to obtain its investment exposure by purchasing units of other investment funds rather than, in the usual case, buying individual securities directly. Consequently, investors can bear expenses at both levels: expenses and management fees associated with the fund of funds itself, plus the management fees and operating expenses embedded in the underlying funds it owns. This layered structure can result in a higher total cost than a conventional mutual fund that directly holds securities and therefore has only its own fund-level expenses. The actual investor cost must be assessed from the fund's disclosed fee information, including its management expense ratio and fund facts disclosure, because fees vary by product and series. Canadian mutual-fund disclosure rules require clear presentation of ongoing fund expenses to help investors understand these costs. See the Canadian Securities Administrators' Mutual Fund Facts and ETF Facts resource and the Ontario Securities Commission's mutual funds information page.

QUESTION NO: 22

Solomon is a Dealing Representative who is excited about a new equity fund his dealer recently approved. He thinks investors will be attracted to the fund's historical performance. He has a prospective new client, Madira, who is 25 years old. Madira has invested in mutual funds before, but not with Solomon's dealer. She has made an appointment to open a new RRSP with Solomon's firm.

What does Solomon need to do to make this a suitable recommendation?

A. Show from past fund performance, that mutual fund costs are not important if there are high returns.

B. Rely on the risk rating of the mutual fund when offering an investment solution.

C. Identify how the proposed investment is in alignment with the investor's profile and holdings.

D. Match the past rates of return of the mutual fund with what is the anticipated rate of return.

ANSWER: C

Explanation:

Identify how the proposed investment is in alignment with the investor's profile and holdings. This is the essential suitability step for Solomon because Madira is a new client of his dealer and the dealer must obtain and assess current know-your-client information before making a recommendation. Her prior experience investing in mutual funds does not replace the need to establish her profile with the new firm.

Solomon should understand relevant information such as Madira's financial circumstances, investment needs and objectives, investment knowledge, time horizon, liquidity needs, risk profile, and other personal circumstances. Since the account is an RRSP, he must also consider the retirement purpose of the account and whether the equity fund fits the intended holding period and risk capacity. He must then evaluate the approved fund in the context of her existing holdings and determine whether the recommendation remains suitable, including its effect on the overall portfolio's risk exposure and diversification.

Suitability is a client-specific determination, not simply an assessment of whether a fund has performed well historically. Canadian registrant rules require a registrant to take reasonable steps to ensure that a purchase recommendation is suitable for the client. See the Canadian Securities Administrators' Companion Policy to National Instrument 31-103 and the OSC's KYC, KYP and suitability guidance.

QUESTION NO: 23

Priya has held units of a Canadian equity mutual fund in a non-registered account for several years. The units have increased substantially in value. She instructs her Dealing Representative to switch the entire holding to a Canadian bond fund in the same fund family.

What is the most important tax consequence of the switch?

A. The switch is tax-free because both funds are managed by the same fund company

B. The redemption of the equity fund units may trigger a capital gain or capital loss

C. The purchase of the bond fund allows Priya to deduct the equity fund's unrealized gain

D. The switch is taxable only if Priya receives the proceeds in cash

ANSWER: B

Explanation:

The redemption of the equity fund units may trigger a capital gain or capital loss is correct. A switch generally involves redeeming units of one mutual fund and using the proceeds to purchase units of another fund. In a non-registered account, the redemption is a disposition for tax purposes. Priya must compare the proceeds of disposition with the adjusted cost base of the units redeemed to determine any capital gain or loss.

Being in the same fund family does not normally make the switch tax-free. The purchase of the bond fund establishes a new adjusted cost base for that investment. A tax-deferred transfer may be available in certain registered plans, but Priya's account is specifically non-registered.